

VZCZCXRO6734
RR RUEHCN RUEHGH RUEHVC
DE RUEHGZ #0937 2340855
ZNR UUUUU ZZH
R 220855Z AUG 07
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 6384
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC

UNCLAS GUANGZHOU 000937

SIPDIS

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [EINV](#) [ECON](#) [ECIN](#) [PGOV](#) [CH](#)

SUBJECT: Rural Finance Case Study: Changjiang County Hainan Province

11. (U) SUMMARY: In Changjiang County, Hainan Province, a local branch of the China Foundation for Poverty Alleviation (CFPA) delivers small loans to assist poor farmers. The branch has experienced non-repayment problems rooted in inadequately trained staff and clients accustomed to government handouts. It has made training its staff and better education for its clients a top priority. END SUMMARY.

The Road to Prosperity Bypasses Some Villagers

12. (SBU) During a recent visit to Bawangling, Changjiang County, in Hainan Province; Conoff met Chen Jinli, the Director of the local microfinance branch of CFPA. A government affiliated non-profit organization, CFPA claims to be China's largest NGO. It began its microfinance operations in 1996. The Changjiang branch opened in September 2006 and currently supports a staff of four, including a summer intern from Mercy Corps.

13. (SBU) The branch serves more than 300 clients, most of whom are farmers. Chen told us that in towns like Qicha, which have cleared land and are close to refineries, farmers plant and harvest sugar cane several times a year, which gives them a somewhat regular income. But in townships like Wangxia, where the road is too far away to transport sugar cane to the refinery, villagers receive a monthly payment of 60RMB per person from the government. They make ends meet by growing the latex plant which can yield a harvest every 7 years, raising poultry and pigs, making wine, and increasingly, migrating to cities to work.

Legacy of Handouts Problematic

14. (SBU) The CFPA branch in this rural Hainan area faces the challenge of educating clients on the condition of repayment following years of government handouts. In the past, the Rural Credit Cooperatives here aided rural minority groups with subsidies of rice and cash. These subsidies and the current government payments have created a misconception of microfinance loans as yet another government giveaway. Branch Director Chen has had to dedicate substantial time and resources to educating local people on the need to repay the loans.

Past Inadequate Staff Training Haunts the Present

15. (SBU) Not only was the handout mentality the mindset of some clients, but it was also a problem for some former staff who did not understand microfinance. Chen told us that his predecessor was not adequately screened and trained, and didn't really understand the need to prepare and educate clients before issuing loans. As a result, there is one village in the branch's portfolio with 100 percent rate of non-repayment. Once non-payment reached critical

mass, no one in the village repaid. This experience has contributed to Changjiang branch's overall non-repayment rate of twenty percent, in contrast to the much lower global average for microfinance institutions of four percent. To address this problem, Chen and some staff members attend week-long training sessions and periodic workshops in Beijing, where they network and learn best practices from more experienced microfinance institutions in China and international microfinance practitioners.

Local Loan Officers Face Special Challenges

16. (SBU) In this area where the local language can be a communication barrier, several loan officers have been hired locally. One such loan officer described the difficult circumstances he faces as a member of the local community. He must impartially scrutinize his client's ability to repay. If he approves a loan, he is praised; but if he denies the loan, the client may blame him personally. He says that in order to maintain professionalism he has had to distance himself from the people with whom he once socialized.

JACOBSEN